

HOUSE BILL REPORT

SSB 6078

As Passed House - Amended:

April 15, 2005

Title: An act relating to state expenditure limitations.

Brief Description: Controlling state expenditures.

Sponsors: By Senate Committee on Ways & Means (originally sponsored by Senators Regala and Kohl-Welles).

Brief History:

Committee Activity:

Appropriations: 4/2/05 [DPA].

Floor Activity:

Passed House - Amended: 4/15/05, 50-43.

Brief Summary of Substitute Bill (As Amended by House)

- Authorizes the Legislature to take actions that raise state revenues with a majority rather than a two-thirds vote from the time the bill is enacted until June 30, 2007.
- Applies the expenditure limit in total to several other related accounts in addition to the State General Fund (Health Services Account; Violence Reduction and Drug Enforcement Account; Public Safety and Education Account; Water Quality Account; and Student Achievement Fund).
- Calculates the fiscal growth factor using a 10 year rolling average of personal income growth instead of a three year rolling average of inflation plus population growth.
- Narrows the circumstances that trigger upward adjustments to the expenditure limit.
- Modifies the manner in which transfers into the emergency reserve fund are calculated.
- Expands the membership of the expenditure limit committee to include the ranking minority members of Senate Ways & Means and House Appropriations Committees.

HOUSE COMMITTEE ON APPROPRIATIONS

Majority Report: Do pass as amended. Signed by 15 members: Representatives Sommers, Chair; Fromhold, Vice Chair; Cody, Conway, Darneille, Dunshee, Grant, Hunter, Kagi, Kenney, Kessler, McDermott, McIntire, Miloscia and Schual-Berke.

Minority Report: Do not pass. Signed by 13 members: Representatives Alexander, Ranking Minority Member; Anderson, Assistant Ranking Minority Member; McDonald, Assistant Ranking Minority Member; Bailey, Buri, Clements, Haigh, Hinkle, Linville, Pearson, Priest, Talcott and Walsh.

Staff: Dave Johnson (786-7154).

Background:

Initiative 601, enacted in 1993, established an expenditure limit for the State General Fund and placed restrictions on state fees and taxes.

Under the initiative, a two-thirds vote of the Legislature is required for any action of the Legislature that raises state revenue or for an action that constitutes a revenue neutral tax shift.

The expenditure limit applies only to the State General Fund. The annual growth in state general fund expenditures is limited to the "fiscal growth factor" plus any adjustments as set forth in statute. The fiscal growth factor is defined as the average rate of state population increase and inflation, as measured by the implicit price deflator, during the prior three fiscal years.

The expenditure limit is adjusted downward annually to reflect the extent to which actual general fund expenditures in the prior year are less than the maximum amount allowed under the expenditure limit. This is sometimes referred to as rebasing. Other downward adjustments to the spending limit are required when program costs or moneys are shifted out of the State General Fund to other dedicated accounts.

Upward adjustments to the spending limit occur if program costs or moneys are transferred into the State General Fund from other accounts. Other adjustments (both upward and downward) occur if federal or local government costs are shifted to or from the State General Fund.

The emergency reserve fund is an account established in the State Treasury. Each fiscal year, any General Fund revenues in excess of the expenditure limit for that fiscal year are transferred to the emergency reserve fund. Every year, \$35 million is required to be transferred from the emergency reserve fund to the multi-modal transportation account. The requirement is suspended for the 2003-05 fiscal biennium.

The Expenditure Limit Committee calculates the expenditure limit each November and projects an expenditure limit for the next two fiscal years. The Expenditure Limit Committee

consists of the Director of Financial Management, a designee of the Attorney General, and the chairs of the Senate Ways & Means and the House Appropriations Committees.

Summary of Amended Bill:

Effective immediately, and until June 30, 2007, the Legislature may enact legislation that increases state revenue or constitutes a revenue neutral tax shift by a majority vote.

Effective for the 2007-2009 biennium and thereafter, the state expenditure limit will apply cumulatively to the State General Fund and five additional related funds: Health Services Account; Violence Reduction and Drug Enforcement Account; Public Safety and Education Account; Water Quality Account; and Student Achievement Fund.

The fiscal growth factor will be based on the average growth in state personal income over the prior ten years. Transferring money to the General Fund, or related fund, will not increase the state expenditure limit, and the shift of program costs to the General Fund, or related fund, will not raise the limit unless the necessary revenues are also transferred.

If total revenues from the State General Fund and related funds exceed the state-expenditure limit for these funds, monies will be transferred from the State General Fund to the emergency reserve fund. The amount transferred will be the amount revenues exceed the limit multiplied by the percentage that general fund expenditures are of total expenditures from the General Fund and related accounts in that fiscal year.

The requirement to transfer certain funds from the emergency reserve fund to the multi-modal account is eliminated. This requirement was suspended for the 2003-2005 fiscal biennium.

The Expenditure Limit Committee will increase from four to six members by adding the ranking minority members of the Senate Ways and Means and the House Appropriations Committees. Actions taken by the committee would require the affirmative vote of four members rather than three members.

Appropriation: None.

Fiscal Note: Not requested.

Effective Date of Amended Bill: The bill contains an emergency clause and takes effect immediately, except for Sections 3 through 6, which take effect July 1, 2007.

Testimony For: The original intent of Initiative 601 was to control spending while still ensuring the funding of essential state services. The spending limit should be a transparent thing. Changes made by both Republican and Democrat budget writers have clouded the transparency of the limit. This would strengthen the limit by avoiding all of the transfers and by expanding the funds covered under the limit. All of these changes will help make the limit

more transparent. Personal income is a more accurate reflection of the population and inflationary pressures that we face in writing a budget. Pegging the limit to more realistic measures and correcting some of these flaws makes all of the sense in the world.

Testimony Against: Initiative 601 has been watered down but it still has some strength. The initiative has kept budget growth lower than it otherwise would have been and helped smooth out the boom and bust cycles. The current method of calculating the fiscal growth factor and two thirds vote requirements are important and should remain. Small businesses insist that the Legislature have very significant debate and compromise in a bipartisan fashion before enacting tax increases. The emergency clause should be removed. When combined with the change to personal income, it is very important to include rebasing as wage growth has sometimes exceeded what business are actually bringing into their businesses.

Persons Testifying: (In support) Senator Regala, prime sponsor; and Len McComb, Washington State Hospital Association.

(Opposed) Tom McBride, Association of Washington Business; and Carolyn Logue, National Federation of Independent Businesses.

Persons Signed In To Testify But Not Testifying: None.